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## CONTENTS

Sr. No.	TITLE & NAME OF THE AUTHOR (S)	Page No.
1.	PERCEIVED ROLE OF CORPORATE CULTURE IN PERFORMANCE OF COMMERCIAL STATE CORPORATIONS IN KENYA <i>THOMAS C.O. MOSE, DR. MIKE IRAVO, DR. GEORGE O. ORWA &amp; DR. ENG. THOMAS SENAJI</i>	1
2.	A STUDY ON PATIENTS' SATISFACTION TOWARDS SERVICES PROVIDED BY PRIVATE HOSPITALS IN ERODE TALUK, ERODE DISTRICT <i>S. SASIKALA &amp; DR. C. VADIVEL</i>	8
3.	A STUDY ON MARKET MOVEMENT IMPACT ON MUTUAL FUND SUBSCRIPTIONS AND REDEMPTIONS <i>Y. JAYA RADHA SANKAR, DR. P. DIANA DAVID &amp; LEELA CHAKRAVARTHI AKULA</i>	14
4.	EFFECTIVE CHANGE MANAGEMENT <i>SINDHU S PANDYA</i>	19
5.	SUPPLY CHAIN MANAGEMENT PRACTICES IN ORGANIZED RETAILING: A STUDY IN TRICHY REGION <i>DR. S. SARAVANAN &amp; K. S. TAMIL SELVAN</i>	21
6.	BANK CREDIT TO SMALL AND MEDIUM SPORTS GOODS MANUFACTURING ENTERPRISES OF MEERUT - OBSTACLES IN FINANCING AND RECOVERY OF THE LOAN <i>KALI RAM GOLA, P. K. AGARWAL &amp; MRIDUL DHARWAL</i>	25
7.	IMPACT OF CHANGES IN INTEREST RATE ON BANK PROFITABILITY: A RE-EXAMINATION <i>DR. NAMRATA SANDHU &amp; HIMANI SHARMA</i>	30
8.	IT & ITES EMPLOYEES' OPINION ON THE PERSPECTIVES CONSIDERED IN THE BALANCED SCORECARD- A STUDY WITH SPECIAL REFERENCE TO COIMBATORE DISTRICT <i>SHYAM UMASANKAR K K &amp; DR. V KRISHNAVENI</i>	33
9.	IMPACT OF EXCHANGE RATE MOVEMENT AND WORLD OIL PRICE ON INDIAN AUTO STOCKS <i>NISCHITH. S &amp; DR. MAHESH. R</i>	39
10.	IMPACT OF NON PERFORMING ASSET ON PROFITABILITY OF PUBLIC AND PRIVATE SECTOR BANKS IN INDIA <i>LAVEENA &amp; KAMAL KAKKAR</i>	46
11.	POLITICAL EMPOWERMENT OF WOMEN IN PNACHAYATI RAJ INSTITUTIONS: AN OVER VIEW <i>DR. M. GOPI</i>	51
12.	CO-INTEGRATION OF INDIAN STOCK MARKET WITH US STOCK MARKET <i>ABHAY KUMAR</i>	56
13.	INDIAN VALUE ADDED TAX (VAT) SYSTEM: A PROTOTYPE FOR NIGERIA <i>AHMED JINJIRI BALA &amp; DR. A. THILAGARAJ</i>	61
14.	A STUDY OF COMMITMENT OF SCHOOL TEACHERS IN RELATION TO SOME BACKGROUND VARIABLES <i>DR. KAMALPREET KAUR TOOR</i>	65
15.	A STUDY ON EMPLOYEE JOB SATISFACTION IN WITH REFERENCE TO KERALA GARMIN BANK, THRISSUR DISTRICT <i>MIRANDA PAUL</i>	71
16.	JOB STRESS AND JOB SATISFACTION IN THE COMMUNICATION SERVICE INDUSTRY: EVIDENCE FROM TECH MAHINDRA GHANA LTD. <i>PAUL APPIAH-KONADU &amp; HENRY KWADWO FRIMPONG</i>	75
17.	THE EFFECTS OF ERP SYSTEM <i>SAJID NEGINAL</i>	81
18.	INTERNET BANKING: DEBATING CORE ISSUES AND BENEFITS <i>LAVANYA K.N.</i>	83
19.	IMPACT OF WORKING CAPITAL MANAGEMENT ON CORPORATE PERFORMANCE: A STUDY BASED ON SELECTED BANKS IN NIGERIA <i>ALIYU SANI SHAWAI</i>	85
20.	CARE FOR INDIA: TACKLING URBAN-RURAL DISPARITIES: URBAN VS. RURAL ACCESS TO HEALTHCARE SERVICES IN UTTAR PRADESH <i>RHEA SHUKLA</i>	89
	REQUEST FOR FEEDBACK & DISCLAIMER	94

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## BANK CREDIT TO SMALL AND MEDIUM SPORTS GOODS MANUFACTURING ENTERPRISES OF MEERUT - OBSTACLES IN FINANCING AND RECOVERY OF THE LOAN

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### ABSTRACT

*Commercial Banks are the main source of external finance for SMEs. A number of obstacles are being faced by banks in financing and recovery of the loans. The financing of SME's has been a subject of great interest both to policy-makers and researchers because of the significance of SMEs in the private sector. The objective of the study is to identify major decision factors and recovery factors faced by commercial banks for financing SME's. The study found the following main factors which act as the driver for the financing and recovery decisions, with the help of Chi-square test. They are lack of collateral, NPA, number of defaults made by the firm with reference to previous loans, track record of the firm or owner, bad credit record, unaudited statements and lack of information about the profit earned by SME. The influence of these factors decides the risk associated with the SME lending.*

### KEYWORDS

bank finance, collateral, npa, financial constraints, small and medium enterprises.

### INTRODUCTION

 ME is the abbreviation for Small and Medium Enterprises. The critical role of the MSME sector in the social and economic development of our country is well known in terms of employment generation, exports and contribution to Gross Domestic Product. These enterprises can be called as the backbone of the GDP of India. In recent years the SME sector has consistently registered higher growth rate compared to the overall industrial sector. The major advantage of the sector is its employment potential at low capital cost. The labour intensity in the SME sector is estimated to be almost four times higher than the large enterprises. The major advantage of the sector is its employment potential at low capital cost for which, three critical enablers are required. Firstly, better infrastructure, second- the increased access to risk capital and the third - creating a culture of innovation. MSMEs are important for the national objectives of inclusive growth i.e. growth with equity and inclusion.

Post globalizations, SMEs are exposed to greater opportunities than ever for expansion and diversification across the sectors. Indian market is growing rapidly and Indian entrepreneurs are making remarkable progress in various sectors like Manufacturing, Food Processing, Textile & Garments, Retail, IT and Service sector. The small enterprise sector has continued to contribute immensely in creating large scale job opportunities across the space and in the process, helped reduce inter-regional rural-urban disparities in growth. Certain products belonging to this sector have also been consistently figuring in the export basket during the recent decades, although the export performance in the global market has been unimpressive and the level of threat has also enlarged.

### MSME ACT-2006 WITH THE PROPOSED AMENDMENTS

Particular	Manufacturing enterprise (investment in P&M)	Proposed (2014)	Services enterprise (investment in equipment)	Proposed (2014)
Micro enterprise	Up to Rs. 25 Lakh	Rs. 50 Lakh	Up to Rs.10 Lakh	Rs. 20 Lakh
Small enterprise	Above Rs.25 Lakh & up to Rs.5 Crore	Rs.10 crore	Above Rs.25 Lakh & up to 2 crore	Rs.5 crore
Medium enterprise	Above Rs.5 Crore up to Rs.10 Crore	Rs.30 crore	Above Rs.2 Crore & up to Rs.5 Crore	Rs.15 crore

Source: <http://dcmsme.gov.in>

### INDIAN SPORTS GOODS INDUSTRY- AN OVERVIEW

The Sports Goods industry in India, exports almost 60 percent of its total production to the sports loving enthusiasts all over the world thus has emerged as a major global competitive and creative entity. Right from a cricket bat or a hockey stick or a football, the Indian sports goods industry has contributed a lot to the international sports goods market. In recent times Indian sports goods industry has emerged as an important supplier of quality sports goods and children toys to the international markets. The sports goods industry has been able to adopt new technology thus enabling it to produce sports goods which matchup to the fast changing international standards (sources: *India brand equity foundation, www.ibef.org*)

Meerut is one of the main industrial districts of the western Uttar Pradesh. It is located about 85 kms from Delhi. Sports goods manufacturing units are largely located in or in the vicinity of Meerut & Jalandhar. Meerut is known for many types of industries. It is the second largest supplier of sports goods in India. Based on a recent Census of India- 2011, conducted by the District Industry Centre (DIC) Meerut, there are about 1150 registered and approximately 2000 non registered sports goods SME's units, resulting in direct and indirect employment opportunities to approximately 1.5 lakhs people. Ancillary units have also grown to provide sufficient quantity of raw material to the sports goods industry and also provide adequate skills to the workers.

### BANKING SECTOR FINANCING

Among the banking sector in the organised institutions, the commercial banks are the most established foundations having an extensive system of branches, charging most extreme open certainty and having the huge offer in the aggregate saving money operation. At first, they were set up as corporate bodies with



offer property by private people, yet along these lines there has been a move towards state possession and control. Till seventies Commercial banks were fundamentally occupied with financing sorted out exchange, trade and industry, now they are effectively partaking in financing horticultures, small business and small borrowers. Moreover, the business banks working in India fall under various sub – classifications on the premise of proprietorship and control of administration.

## STRUCTURES OF SME FINANCING

Financing by banking institutions form the most important source of external financing for SMEs. This is due to the dominance of the banking sector as the main intermediary in the financial systems. The banking sector has a wide range of financing generic short, medium and to a lesser extent, long term credit and various supplementary financing instruments including trade credit, export financing, factoring and discounting. Some banks also provide special loans targeted at priority sectors and key segments of the population as identified by the Government. There are also several credit cooperatives/credit funds, microfinance institutions and financing companies. Letters of credit are offered by some commercial banks to facilitate trade financing but the SME's are unlikely to be the main beneficiaries.

## SOURCES OF SME FINANCING

SMEs draw financing from a variety of sources. Around 30- 40% of SMEs in India rely on internal savings, retained earnings and borrowings from family, friends and money lenders (collectively known as 'informal sector') as opposed to the 60-70% which have access to formal sector finance (banks, capital markets, venture capitalists etc.) Banks' lending to the Micro and Small enterprises engaged in the manufacturing or production of goods specified in the first schedule to the Industries (Development and regulation) Act, 1951 and notified by the Government from time to time is reckoned for priority sector advances. However, bank loans up to Rs.5 crore per borrower / unit to Micro and Small Enterprises engaged in providing or rendering of services and defined in terms of investment in equipment under MSMED Act, 2006 are eligible to be reckoned for priority sector advances. Lending to Medium enterprises is not eligible to be included for the purpose of computation of priority sector lending.

## LITERATURE REVIEW

**Arito Onoiichiro and Uesugi (2006)** Role of Collateral and Personal Guarantees in Relationship Lending: "Evidence from Japan's SME Loan Market to find determinants of the use of collateral and personal guarantees in Japan's SME loan market". And concluded that dependable with the hypothesis used of collateral is efficient in emerging the bank's superiority and improve its monitoring and showing. This motivation result for the bank happens to more difficult for private assurance.

**Bjorn Berggren, Lars Silver (2011)** on "Financing entrepreneurship in different regions: The failure to decentralise financing to regional centres in Sweden. The purpose of the paper is to analyse the financial search behaviour of small and medium-sized enterprises (SMEs) in different regions and the perceived importance of different external financiers for these firms. The findings show that large differences exist in the financial search behaviour exhibited by firms in the four different types of regions. In the metropolitan areas, firms are more active in searching for new owners, especially professional investors. In smaller municipalities, banks dominate as the most important financier. The paper fulfils an important role in elaborating on the use and importance of different types of financing in various regions.

**Coluzzi et al., (2008)**, studied the indicator of financing constraints for five euro area countries (Germany, Spain, France, Italy and Portugal). They found that young and/or small firms in principle grow faster than larger and older firms. At the same time, they also face considerably more severe financing restrictions than other firms. Also, firms of the manufacturing and construction sectors are more likely to feel financing constraints, which may be attributable to the high capital intensity of these sectors. As could be expected, increased sales – which reflect better success of the chosen business model – lessen financing constraints. Regarding the impact of financing constraints on growth, the authors found that more cash flow fosters growth. The probability of financial obstacles (proxied by age, size and other firm features) is found to affect growth for all countries except for Germany. The effect of higher leverage is ambiguous: it fosters growth in some countries (Spain, France and Italy) while it hampers growth in Germany and Portugal

**Dietsch and Petey (2008)** investigated a specific issue relating to capital requirements for bank's SME loan portfolios, namely the diversification potential within large portfolios of SMEs. Extending the standard one-factor credit default model to multiple factors, which takes into account size, sector and location, they computed economic capital allocations for large portfolios of French SME loans. They found that two opposing effects are at play when estimating aggregate credit risk for an SME loan portfolio: on the one hand, diversification decreases economic capital; on the other hand, a more complete representation of default rate dynamics in such a framework increases economic capital.

**David P. Ely Kenneth J and Robinson (2001)** Entrepreneurships and Bank credit accessibility Consolidation, technology and the changing structure of banks small business loaning. The US keeping banking industry supplies to merge with vast, complex financial institutions turning out to be more critical customarily, their organizations have not accentuated small business loaning. Then again, innovative advances, especially credit scoring models, make it simpler for banks to amplify small business loan.

**Hernandez-Canovas, G.K, Johanna (2011)** SME financing in Europe: Cross-nation determinants of bank credit. This article looks at the impact of cross-country contrasts on bank advance development for small and medium-sized undertakings (SMEs) and inferred that SMEs in nations that secure its loan bosses and authorize existing laws will probably acquire long haul bank obligation. Banks appear to depend more on the institutional environment when deciding advance development for small scale firms than for medium-sized firms

**Pietro Calice, Victor M. Chando and Sofiane Sekioua (2012)** found in a research paper on 'Bank Financing to Small and Medium Enterprises in East Africa: Findings of a Survey in Kenya, Tanzania, Uganda and Zambia' We find that the SME segment is a strategic priority for the banks in the region. SMEs are considered a profitable business prospect and provide an important opportunity for cross-selling. Banks consider that the SME lending market is large, not saturated and with a very positive outlook. A number of obstacles are, however, constraining banks' further engagement with the SME segment, including SME-related factors, macroeconomic factors, business regulation, the legal and contractual environment, the lack of a more proactive government attitude towards the segment, some areas of prudential regulation and some bank-specific factors.

**S.K. Chhabra, (2009)** - has conducted a study on Role of scheduled commercial banks in socio-economic development of Nagaland. The paper also evaluates the performance of commercial banks in terms of various parameters, in which SMEs play a part. Nagaland is an industrially backward state. Till date the state is industrially represented by 10 medium and large industries, 1900 SSI units, the government of the state is desperately trying for the development of SME's in the state. Commercial banks are expected to provide adequate and timely assistance in view of the backwardness of the state; both commercial banks and financial institutions are also expected to make adequate concessions through the various conditions and norms, for commercial banks and term loan. The findings show that banks have to ensure increased credit flow.

**Vasilescu, Laura (2014)** finance for innovative EU SME's - key drivers and challenges. The paper investigates that access to fund is a key determinant for business start-up, advancement and development for SMEs, including the imaginative ones, and they have diverse needs and face distinctive difficulties. The constrained business sector force, absence of administration abilities, nonappearance of satisfactory bookkeeping records and inadequate resources, exchange expenses and absence of insurance, each of the tend to expand the danger profile of SMEs. Besides, vulnerability and educational asymmetries that portray SMEs are intensified for inventive SMEs making it more troublesome for them to get to fund through conventional means. Keeping in mind the end goal to enhance the entrance to fund for SMEs, the endeavours ought to be engaged at the European and national levels on tackling the issues in regards to working capital, enhancing business enterprise and money related environment in the long haul, pulling in new budgetary assets, encouraging dialog and counsel between governments, SMEs and monetary establishments.

**OBJECTIVES**

The present study has been undertaken with the following objectives:

1. To identify the kinds of problems being faced by banks in financing MSME's.
2. To identify the problems faced by banking sectors in term of recovery of loan from SME's.
3. Decision factors considered by commercial banks for financing SME's.

**RESEARCH METHODOLOGY & SAMPLING PROCEDURE**

Research is based upon primary and secondary data. A set of 100 Questionnaires filled and returned by the officials branches of different commercial Banks in Meerut district, which was taken as the sample for this study, in which 76 officials responded. The data is analyzed by using Chi- Square Test and represented through graphs & tables through SPSS.

**HYPOTHESIS**

1. Null Hypothesis: Collateral is independent of the problems faced by banks.
2. Null Hypothesis: NPA is independent of the problems faced by banks.
3. Null Hypothesis: Interest is independent of the problems faced by banks.
4. Null Hypothesis: Small enterprise is independent of the problems faced by banks.
5. Null Hypothesis: Non Registered Organisation is independent of the grounds for rejecting loan proposals from SME'S
6. Null Hypothesis: Proof of existence is independent of the grounds for rejecting loan proposals from SME'S
7. Null Hypothesis: Unaudited statement is independent of the grounds for rejecting loan proposals from SMEs

**ANALYSIS AND INTERPRETATION**

**Q. 1: What kinds of problems are being faced by banks in financing SME's?**

TABLE 1: ANALYZED OF COLLATERAL IS BEING FACED BY BANKS IN FINANCING SME					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	1	1.4	1.4	1.4
	3	1	1.4	1.4	2.7
	4	20	27.0	27.0	29.7
	5	52	70.3	70.3	100.0
	Total	74	100.0	100.0	

It is concluded that around 97 % population agree with that fact. That Collateral is one of the major problems faced by banks in financing the SME's.

TABLE 2: ANALYZED OF NPA IS BEING FACED BY BANKS IN FINANCING SME					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	1	1.4	1.4	1.4
	3	1	1.4	1.4	2.7
	4	28	37.8	37.8	40.5
	5	44	59.5	59.5	100.0
	Total	74	100.0	100.0	

It is concluded that NPA is also a factor contributing to problem faced by bank in financing SME's, because majority of population opted for agree or strongly agree option.

TABLE 3 : ANALYSIS OF INTEREST RATE IS BEING FACED BY BANKS IN FINANCING SME					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	12	16.2	16.2	16.2
	2	3	4.1	4.1	20.3
	3	16	21.6	21.6	41.9
	4	37	50.0	50.0	91.9
	5	6	8.1	8.1	100.0
	Total	74	100.0	100.0	

Interest rate is also a factor contributing to problem faced by bank in financing SME's.

All null hypotheses for study are independence of above factors that whether they are associated with problem faced by bank in financing SME's or not.

For question number 3.1 to 3.4 we assume following null hypothesis for study the independence of above factors that whether they are associated with problem faced by bank in financing SME's or not.

1. Null Hypothesis: Collateral has independent association with problem faced by bank.
2. Null Hypothesis: NPA have independent association with problem faced by bank.
3. Null Hypothesis: Interest Rate has independent association with problem faced by bank.
4. Null Hypothesis: Small enterprise has independent association with problem faced by bank.

Following are the SPSS output

**CHI-SQUARE TEST****FREQUENCIES**

TABLE 4: ANALYZED OF CHI-SQUARE OUTPUT OF COLLATERAL IS BEING FACED BY BANKS IN FINANCING SME			
	Observed N	Expected N	Residual
1	1	18.5	-17.5
3	1	18.5	-17.5
4	20	18.5	1.5
5	52	18.5	33.5
Total	74		

TABLE 5: ANALYZED OF CHI-SQUARE OUTPUT OF NPA IS BEING FACED BY BANKS IN FINANCING SME			
	Observed N	Expected N	Residual
1	1	18.5	-17.5
3	1	18.5	-17.5
4	28	18.5	9.5
5	44	18.5	25.5
Total	74		

TABLE 6: ANALYZED OF CHI-SQUARE OUTPUT OF INTEREST RATE IS BEING FACED BY BANKS IN FINANCING SME			
	Observed N	Expected N	Residual
1	12	14.8	-2.8
2	3	14.8	-11.8
3	16	14.8	1.2
4	37	14.8	22.2
5	6	14.8	-8.8
Total	74		

TABLE 7: ANALYZED CHI-SQUARE OUTPUT OF SIZE OF ENTERPRISE IS BEING FACED BY BANKS IN FINANCING SME			
	Observed N	Expected N	Residual
1	13	14.8	-1.8
2	10	14.8	-4.8
3	19	14.8	4.2
4	30	14.8	15.2
5	2	14.8	-12.8
Total	74		

## TEST STATISTICS

TABLE 8: ANALYZED OF CHI-SQUARE OUTPUT OF PROBLEMS ARE BEING FACED BY BANKS IN FINANCING SME's				
	Q.3.1	Q.3.2	Q.3.3	Q.3.4
Chi-Square	93.892 <sup>a</sup>	73.135 <sup>a</sup>	48.568 <sup>b</sup>	29.649 <sup>b</sup>
Df	3	3	4	4
Asymp. Sig.	.000	.000	.000	.000

In test statistics table, we see p value for each question is less than 0.05 level of significance, so we reject all the null hypothesis and conclude that there is significant association of above problems related to bank in financing SME's.

SMEs mainly approach banks for their external financing, but there are many obstacles in financing by the banks. We find that some of the major factors which act as the driver for the financing decisions are- lack of collateral, number of defaults made by the firm during previous loans, poor track record of the firm or owner, bad credit record, and lack of information on SME. Some of the obstacles in recovery of loan from SME's are wilful defaulter, lack of sufficient staff and delay in auction. The influence of these factors decides the risk associated with the SME lending. Banks should take into account these factors as the drivers while choosing an SME for financing.

**Q. 2: Problems faced by the banking sectors in term of recovery of loan from SME's**  
**FREQUENCY TABLE**

**TABLE: 9 ANALYSIS OF WILL FULL DEFAULTERS IS ONE OF THE CAUSES FOR PROBLEMS FACED BY THE BANKING SECTORS IN TERM OF RECOVERY OF LOAN FROM SME's.**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1	1	1.4	1.4	1.4
3	4	5.4	5.4	6.8
4	11	14.9	14.9	21.6
5	58	78.4	78.4	100.0
Total	74	100.0	100.0	

It is concluded that most of the population strongly agree with the fact that Will full defaulter is one of the cause for problems faced by the banking sectors in term of recovery of loan from SME's.

**TABLE: 10 ANALYZED OF DELAY IN AUCTION PROCESS/ LEGAL SYSTEM IS ONE OF THE CAUSES FOR PROBLEMS FACED BY THE BANKING SECTORS IN TERM OF RECOVERY OF LOAN FROM SME's**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1	3	4.1	4.1	4.1
2	1	1.4	1.4	5.4
3	17	23.0	23.0	28.4
4	47	63.5	63.5	91.9
5	6	8.1	8.1	100.0
Total	74	100.0	100.0	

**TABLE 11: ANALYZED OF LACK OF SUFFICIENT STAFF IS ONE OF THE CAUSES FOR PROBLEMS FACED BY THE BANKING SECTORS IN TERM OF RECOVERY OF LOAN FROM SME's**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1	18	24.3	24.3	24.3
3	13	17.6	17.6	41.9
4	34	45.9	45.9	87.8
5	9	12.2	12.2	100.0
Total	74	100.0	100.0	

it is concluded that most of the population strongly agree with the fact that lack of sufficient staff is one of the cause for problems faced by the banking sectors in term of recovery of loan from SME's.

**Q. 3: Any specific promotional scheme for finance to sports goods industries.**

TABLE 12: ANALYZED OF SPECIFIC LOAN SCHEME FOR FINANCE TO SPORTS GOODS INDUSTRIES					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	74	100.0	100.0	100.0

it is concluded that most of the population agree with the fact that delay in auction is one of the cause for problems faced by the banking sectors in term of recovery of loan from SME's.

**TABLE 13: ANALYSIS OF NON-REGISTERED ORGANIZATION FOR REJECTING LOAN PROPOSALS OF SMEs**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	1	1.4	1.4	1.4
	4	13	17.6	17.6	18.9
	5	60	81.1	81.1	100.0
	Total	74	100.0	100.0	

It is concluded that most of the surveyed population strongly agree with the fact that non registered organisation is one of the grounds for rejecting loan proposals from SME's.

**TABLE 14: ANALYSIS OF PROOF OF EXISTENCE FOR REJECTING LOAN PROPOSALS OF SMEs**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	1	1.4	1.4	1.4
	3	2	2.7	2.7	4.1
	4	27	36.5	36.5	40.5
	5	44	59.5	59.5	100.0
	Total	74	100.0	100.0	

it is concluded that most of the surveyed population strongly agree with the fact that proof of existence is one of the grounds for rejecting loan proposals from SME's.

**FINDINGS**

After undertaking the study, the paper presents the findings of a survey of SME lending with 76 branches of commercial banks in Meerut district, UP India. We believe the general findings of this paper offer a reliable overview of the banks' attitudes and perceptions towards SME financing in the Meerut districts. The results of the survey indicate that banks consider the SME segment strategically important and are actively pursuing SMEs. Several constraints are, however, holding back the further involvement of banks with SMEs in the region: inability to post adequate collateral, recent interest rate and exchange rate instability; NPA, the business regulatory framework, especially the KYC requirements; prudential regulation, in particular the requirements in the area of collateral; and some bank-specific factors. Also some factors for recovering loan from SME's like; wilful defaulter, lack of sufficient staff and delayed in auction. Bank respondents have shown mixed preference for SME financing. The impediments faced by banks are the reasons why SME loans are rejected. The following findings emerged about the drivers of the bank financing and recovery for SMEs.

**CONCLUSION**

India has a vibrant SME sector that plays an important role in sustaining economic growth, increasing trade, generating employment and creating new entrepreneurship in India. SMEs mainly approach banks for their external financing, but there are many obstacles in financing a firm for the banks. We find that some of the major factors which act as the driver for the financing decisions are- lack of collateral, lack of bankable business plan, number of defaults made by the firm during previous loans, lack of track record of the firm or owner, bad credit record, and lack of information on SME. Also some factors for recovering loan from SME's like; wilful defaulter, lack of sufficient staff and delay in auction. The influence of these factors decides the risk associated with the SME lending. Banks should take into account these factors as the drivers while choosing an SME for financing.

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